



Fairfax County

Internal Audit Office

**Department of Housing and Community Development
Business Process Audit
Final Report**

November 2016

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Executive Summary

We performed a business process audit covering procurement and reconciliation within the Department of Housing and Community Services (DHCD). The audit included review of procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, value line purchase order payments, monthly reconciliations, and verifying compliance with Personnel/Payroll Administration Policies and Procedures (PPAPP). The areas covered in PPAPP included time/attendance system and controls, attendance/absence reporting, employee clearance record processing, credit check requirements for positions of trust, and procedures for completing criminal background investigations for employment in sensitive positions or designated volunteer roles.

We found that in general the department had effective procedures and internal controls in place for the handling of purchasing functions and personnel/payroll administration. Transactions had adequate evidence of compliance with county policy. Reconciliations were completed in a timely manner. However, we noted the following exceptions where compliance and controls needed to be strengthened:

- FOCUS reconciliations were not properly documented.
- Split purchases were made in excess of the department's card single purchase limit.
- DHCD'S 16 maintenance departmental p-cards were not properly secured or logged.
- Monthly purchase limits were not in line with actual spending.
- Employee Clearance Record process was not started three days prior to the individual's last day and a copy of the checklist was not provided to the employee.

Scope and Objectives

This audit was performed as part of our fiscal year 2016 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit objectives were to review DHCD's compliance with county policies and procedures for purchasing processes, personnel/payroll administration, and financial reconciliation. We performed audit tests to determine internal controls were working as intended and transactions were reasonable and did not appear to be fraudulent.

The audit population included transactions from procurement card, FOCUS marketplace, purchase order, value-line purchase order, and non-purchase order that occurred during the period of March 2015, through February 2016. For that period, the department's purchases were \$953,416 for procurement cards, \$82,666 for FOCUS marketplace, \$18,527,059 for purchase orders and value-line purchase orders, and \$3,386,163 for non-purchase order payments.

Methodology

Audit methodology included a review of the department's business process procedures with analysis of related internal controls. Our audit approach included an examination of expenditures, records and statements; interviews of appropriate employees; and a review of internal manuals and procedures. We evaluated the processes for compliance with county policies and procedures. Information was extracted from the FOCUS and PaymentNet systems for sampling and verification to source documentation during the audit.

Findings, Recommendations, and Management Response

1. Monthly FOCUS Reconciliations

While the reconciliation of procurement card and FOCUS marketplace were properly performed and documented, DHCD did not properly document the reconciliations of POs, Non-POs, and value line POs. The report that was used by the agency to review expenditures including POs, value-line POs, and non-POs did not contain necessary information such as document numbers and in some instances descriptions of the goods purchased to provide the reconciler with an accurate and complete understanding of the items to be reconciled.

Accounting Technical Bulletin (ATB) 020, *Reconciliation of Financial Transactions*, requires that a detailed review of expenditures be completed and documented on a monthly basis.

Recommendation: We recommend DHCD utilize reports that show the details of the transactions being reviewed. These reports should contain document numbers, descriptions, vendor name, and dollar value of the transaction.

Management Response: Management has improved Reconciliations and the reconciliation process effective the new fiscal year 2017 to include detailed transaction review for each fund; this detail will include revenue, expenditures, POs, Non-POs and value line PO's and non-program information. For the start of FY 2017, Reconciliation Procedures have been established to reflect the specific detailed reports needed for each fund. Fund accountants are responsible for the review of the detailed transactions for the assigned funds and must complete the required cover sheet to document the monthly process. Management anticipates completion of this item by July 1, 2016.

2. Split Transactions

There were eight instances where split purchases were made in excess of the department's card limit for individual procurement cards. For instance, a purchase of 104 smoke detectors in the amount of \$5,563, which exceeds the single purchase limit of \$2,500, was split into three transactions of \$2,360, \$2,360 and \$843.

Split transactions occur when the original purchase requirement for the same or related goods or services is broken into multiple smaller purchases, which are made over a short period of time. Procedural Memorandum (PM) 12-02 prohibits split purchases and states that “in most cases, a split purchase is created to circumvent a card’s single purchase or cycle spending limit. In some cases, a split purchase is made to circumvent the county’s monetary threshold for the competitive bidding process.”

Recommendation: We recommend DHCD utilize proper purchasing methods in accordance with county policy. When exceptions to policy are made they should be clearly documented and approved. In addition, procurement card usage should be reviewed to determine if monetary limits need to be modified.

Management Response: Split Card transactions are under review and are occurring primarily with PIMD purchases where there is a demand for maintenance and residential purchases and constraints of occupancy and compliance requirements. Card limits are currently being reviewed by users to identify cards needing higher limit levels; named cards are also being reviewed. Financial Management has met with PIMD and procedures have been updated to explain what constitutes a split transaction. We are also working with DPSM to establish a PO contract where possible for certain vendors. Some items such require substantial lead time; have time constraints for occupancy; and often exceed \$10,000 in value. We have met with DPSM who want a P-Card solutions for our purchases vs. PO and we are exploring using special use cards. We will continue to monitor split transaction purchases on a monthly basis as part of the monthly reconciliations for p-cards. PIMD staff will be notified and trained to call in and increase the value of the card limit for special high dollar purchases. Management anticipates completion of this item by December 1, 2016.

3. Departmental P-Cards

The maintenance p-cards (*Maintenance 1-13, South County Maintenance, Home Repair, and Home Repair 1*) were in the possession of their primary card users 24 hours a day and not kept at a central location under lock and key. Per staff, the cards needed to be kept with their assigned users at all times due to the need to make purchases of repair parts to complete the jobs. Additionally, the p-card activity was not logged in a timely manner. Instead purchases were recorded in an Access Database which did not indicate the time the card was in the possession of the purchaser. The purchase was recorded in the database after it was made by an individual other than the card user.

This is inconsistent with PM 12-02 which states that “p-cards should be in a locked location when not in use. Access to the location should be limited to those individuals who require access to the card.” When a procurement card is not properly secured, the risk that it could be stolen and used for unauthorized purchases increases.

PM-12-02 also states, “A system that tracks possession of the p-cards and records p-card purchases as they occur must be in place.” If possession of the p-card is not

accurately tracked, the risk of not identifying fraudulent transactions in a timely manner is increased. Since the bank does not offer as much fraud protection for departmental cards as named cards it is imperative to accurately and completely track the possession and usage of these p-cards.

Recommendation: We recommend DHCD close the departmental cards that need to be kept with the assigned users and reissue these cards in the name of the primary card users. This would allow the County more protections and dispute rights for potential fraudulent charges. If DHCD needs to continue the use of departmental procurement cards, they should maintain proper p-card transaction logs and keep the cards in a secure locked location while not in use.

Management Response: Financial Management will look at better methods of securing cards and tracking sign-out and users. Transaction usage will be reviewed to determine if a “named card” is needed vs. the general maintenance p-card to reduce fraud potential. Management anticipates completion of this item by December 1, 2016.

4. Card Limits Control

An analysis performed on card limitation controls for DHCD cards for the period March 2015 through February 2016, revealed that the monthly spending limits were set significantly higher than the actual amount charged for 3 of the 34 agency procurement cards; Maintenance Department 1, Maintenance Department 5, and Maintenance Department 6.

The county has limited dispute rights for fraudulent charges on departmental cards and agencies are liable for fraudulent charges until such cards are reported to the bank as lost or stolen. Setting the procurement card limits higher than necessary increases the county’s exposure in the event the card is lost, stolen or improperly used by a county employee.

Recommendation: We recommend DHCD review procurement card usage and determine appropriate limits for each procurement card. The limits for each card should then be set accordingly, based on actual usage and needs.

Management Response: Maintenance cards Dept.1, Dept. 5, and Dept. 6 will be reviewed to understand usage and needs. The department will review and set limits where possible to prevent fraud exposure. Card usage and limits will be reviewed and set on an annual basis. Management anticipates completion of this item by December 1, 2016.

5. Employee Clearance Record Checklist

We noted that four of the six Employee Clearance Record checklist (ECRC) tested, were completed on the day the employee separated or transferred and not three workdays before the employee’s last day of work. In addition, terminated employees did not receive a copy of the ECRC.

PPAPP Memorandum 33 requires agencies comply with an Employee Clearance Policy. The policy states “The clearance process should take place as soon as possible, but no later than three (3) workdays before the employee’s separation or transfer.” Additionally, “Employees should receive a copy of the Employee Clearance Record Checklist and sign verifying receipt.”

Failure to perform the employee clearance record process in a timely manner increases the risk of having insufficient time to collect items belonging to the County or resolving potential problems. In addition, employees not receiving a copy of the signed ECRC increases the risk of a dispute between the County and the employee should an issue arise at a later date.

Recommendation: We recommend DHCD perform the clearance process no later than three (3) workdays before the employee’s separation or transfer. Additionally, employees should be provided with a copy of the Employee Clearance Record Checklist, and required to sign verifying the receipt.

Management Response: DHCD has created an internal Procedural Memorandum that spells out the clearance process requirements. All employees will be notified of the new procedure and will be able to easily pull it up via HCD’s internal website: the Housing News Network. The HCD HR Coordinator, or HR Manager in his/her absence, will be responsible to meet with departing employees to perform the employee clearance record process and will ensure the employee receives a copy. Management anticipates completion of this item by October 17, 2016.